



UNITED
NATIONS



Convention to Combat
Desertification

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Item 6 (e) of the provisional agenda*

PROGRAMME AND BUDGET

(e) AUDITED FINANCIAL STATEMENTS FOR THE CONVENTION'S TRUST FUNDS IN 1999

Report of the United Nations Board of Auditors

Note by the secretariat

Addendum

CONTENTS

	<u>Paragraphs</u>	<u>Page</u>
I. INTRODUCTION	1 - 5	2
A. Mandate	1 - 4	2
B. Scope of the report	5	2
II. SIGNED AUDIT CERTIFICATE AND REPORT BY THE UNITED NATIONS BOARD OF AUDITORS ON THE FINANCIAL STATEMENTS OF THE FUNDS OF THE UNCCD FOR THE YEAR ENDED 31 DECEMBER 1999		3
III. AUDITED AND CERTIFIED FINANCIAL STATEMENTS OF THE UNITED NATIONS CONVENTION TO COMBAT DESERTIFICATION FOR THE YEAR ENDED 31 DECEMBER 1999		11

* ICCD/COP(4)/1.

I. INTRODUCTION

A. Mandate

1. Paragraph 20 of the UNCCD financial rules (ICCD/COP(1)/11/Add.1, decision 2/COP.1, annex) states that "the accounts and financial management of all funds governed by the present rules shall be subject to the internal and external audit process of the United Nation".

2. In September 2000, the United Nations Board of Auditors carried out an audit of the Convention's operations for the year ended 31 December 1999 and conducted a management review of the administrative arrangements established by the secretariat. The objectives of the audit were to: enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the period from 1 January to 31 December 1999 had been incurred for the purposes approved by the Conference of Parties; ascertain that income and expenditures were properly classified and recorded in accordance with the Financial Regulations and Rules; verify that the Convention's financial statements presented fairly the financial position as at 31 December 1999; evaluate the adequacy of the financial systems and internal controls; examine the accounting records and other supporting evidence and determine the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of UNCCD.

3. The report by the auditors, which is being submitted herein in its entirety, indicates that UNCCD has conducted its operations in accordance with the United Nations accounting standards and has established a sound financial basis. The report has made suggestions for continuous improvement of both financial and administrative management of UNCCD.

4. The Conference of Parties may wish to consider the recommendations of the board of auditors and provide guidance to the Executive Secretary on how they could be implemented.

B. Scope of the Report

5. This document is divided into two main parts. Part one contains the report of the United Nations Board of Auditors on the financial and management issues of the Convention. Part two contains the audited and certified financial statements for the year ended 31 December 1999, the Executive Secretary's statement summarizing the performance of the secretariat for the year ended 31 December 1999 and the notes to the financial statements.

(II) **REPORT OF THE UNITED NATIONS BOARD OF AUDITORS ON THE
FINANCIAL STATEMENTS OF THE FUND OF THE UNITED NATIONS
CONVENTION TO COMBAT DESERTIFICATION
FOR THE YEAR ENDED 31 DECEMBER 1999**

Contents

	<u>Paragraphs</u>	<u>Page</u>
II. REPORT OF THE BOARD OF AUDITORS		
Summary		5
A. Introduction		5
1. Main recommendations	7	6
B. Financial issues		
1. United Nations Accounting Standards	8-9	6
2. Financial Position	10-14	7
3. Write-off of losses of cash, receivables and property	15	7
4. Ex-gratia payments	16	7
C. Management issues		
1. Administrative arrangements	17-20	8
2. Cases of fraud and presumptive fraud	21	8
D. Acknowledgement	22	9
III. AUDIT OPINION		10

II. REPORT OF THE BOARD OF AUDITORS

Summary

The Board of Auditors has reviewed the operations for the United Nations Convention to Combat Desertification (UNCCD) for the year ended 31 December 1999 and conducted a management review of the administrative arrangements established by UNCCD.

The Board's main findings are:

- (a) UNCCD had generally complied with the United Nations Accounting Standards;
- (b) During 1999 UNCCD established a sound financial basis, with good liquidity;
- (c) For 35 Member States who had yet to pay their assessed contributions of \$50 or less, the cost of collection of these outstanding amounts may exceed their value; and
- (d) Logistical difficulties had arisen in UNCCD's administrative arrangements, whereby the United Nations Office at Geneva had prepared the financial statements for UNCCD.

The Board made recommendations to improve the disclosure of liabilities, determine the minimum level of assessed contributions sufficient to cover collection costs and complete the review of the existing administrative arrangements.

A. Introduction

1. The aim of the United Nations Convention to Combat Desertification (UNCCD) is to combat desertification and mitigate the effects of drought. Initiated at the United Nations Earth Summit, held in Rio de Janeiro in 1992, the Convention entered into force in December 1996. Over 150 countries are now Parties to the Convention. At the heart of the Convention is the commitment of affected countries to prepare and implement action programmes to prevent land degradation. The focus is on popular participation and helping local people prevent and reverse land degradation. 1999 was the first year of operation of the Permanent Secretariat of the UNCCD at its location in Bonn, Germany.

2. The Board of Auditors has audited the financial statements of the UNCCD for the period from 1 January to 31 December 1999. The audit was conducted in conformity with article XII of the Financial Regulations and Rules of the United Nations and the annex thereto, and the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

3. The audit was conducted to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the period from 1 January to 31 December 1999 had been incurred for the purposes approved by the governing bodies; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations and Rules; and whether UNCCD's financial statements presented fairly the financial position as at 31 December 1999. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence, to the extent the Board considered necessary to form an opinion on the financial statements.

4. In addition to its audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of the Financial Regulations and Rules of the United Nations. The reviews primarily concerned the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of UNCCD.

5. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the Conference of Parties. The Board's observations on all matters contained in the present report were communicated to UNCCD. UNCCD has confirmed the facts on which the Board's observations and conclusions are based and provided explanations and answers to the Board's queries.

6. The Board's main recommendations are presented in paragraph 7 below. The detailed findings are in paragraph 8 to 21.

1. Main recommendations

7. The Board recommends that UNCCD:

(a) **Disclose in the notes to the financial statements the value and method of valuation of liability for end-of-service benefits, post-retirement benefits and annual leave, in compliance with United Nations Accounting Standards (para. 9);**

(b) **Determine a minimum level of assessed contribution sufficient to cover collection costs, taking account of the scale of assessment approved by the Conference of the Parties (para. 13); and**

(c) **In conjunction with other United Nations bodies at Bonn, complete its review of administrative arrangements as soon as possible in order to establish the most cost effective arrangements (para. 20).**

B. Financial issues

1. United Nations Accounting Standards

8. The Board assessed the extent to which UNCCD's financial statements for the year ended 31 December 1999 conform to the United Nations Accounting Standards. The review indicated that the presentation of the financial statements is generally consistent with the standards. The Board recognizes that in the case of UNCCD, where staff were employed on limited contracts during 1999, there were no liabilities for end-of-service benefits, post-retirement benefits and annual leave. However, for the future, such liabilities are required to be disclosed.

9. **The Board recommends that, for the future, UNCCD disclose in the notes to the financial statements the value and method of valuation of liability for end-of-service benefits, post-retirement benefits and annual leave, in compliance with United Nations Accounting Standards.**

2. Financial position

Overall Position

10. As shown in Statement I, UNCCD's total income of \$10.1 million in 1999 exceeded its total expenditure of \$9.5 million by \$638,642. This excess of income over expenditure, together with transfers from other funds, increased UNCCD's combined fund balance to \$3.5 million as at 31 December 1999.

11. Statement II shows that UNCCD has a good overall liquidity position, with a ratio of current assets (\$6,271,342) to current liabilities (\$2,752,598) of 2.28:1. This slightly exceeds the generally accepted recommended ratio of 2:1. Statement II shows that, as intended, UNCCD was able to build up the Operating and Working Capital Reserves to the target levels of 15 per cent and 8.3 per cent of expenditure respectively for three of the Trust Funds. During 1999 UNCCD did not need to draw down any of its reserves, which remained at \$589,327 (operating reserve) and \$417,011 (working capital reserve). The Board is pleased to note the Secretariat's efforts to establish the financial stability of the Convention's Trust Funds in this first year of operation.

Assessed Contribution Income

12. Schedule 1.1 to the Financial Statements shows total assessed contributions of \$4,956,870 for 1999. Some \$396,736 (8 per cent) of this amount remained outstanding at 31 December 1999. The Board notes that unpaid contributions from four member states totalled \$294,040, or 74 per cent of the outstanding amount. However, the Board notes that assessed contributions of \$50 or less remained outstanding in respect of 35 Member States. The Board questions whether the administrative costs of collecting such low value contributions will exceed the amounts concerned.

13. The Board recommends that UNCCD determine a minimum level of assessed contribution sufficient to cover collection costs, taking account of the scale of assessment approved by the Conference of the Parties.

Core Budget Expenditures

14. For the Trust Fund for the Core Budget, Statement I shows total expenditure of \$5,024,235, whereas Statement IV shows total expenditure of \$4,982,413. As noted in Statement IV, the difference of \$41,822 was due to exchange losses which were not charged against the budget, but charged to the Income and Expenditure account. Overall, total expenditures of \$5.4 million, including amounts totalling \$417,011 transferred to the Working Capital Reserve, were within the budget of \$6.1 million approved by the COP. However, the Board notes that UNCCD overspent the budget approved for expenditure on Executive Direction and Management by \$79,605 (12.7 per cent) due to the expansion of ratification and awareness raising activities at a faster rate than expected.

3. Write-off of losses of cash, receivables and property

15. In 1999 UNCCD suffered no losses of cash, receivables or property.

4. Ex-gratia payments

16. No ex-gratia payments were reported by UNCCD during the period.

C. Management issues

1. Administrative arrangements

17. Under the administrative support arrangements outlined by letter in April 1998, the United Nations, through its office at Geneva (UNOG), provides support to UNCCD in the areas of personnel, finance and common services. The costs of providing these services are financed from Programme Support Costs levied on expenditures recorded under UNCCD's four Trust Funds. Part of these Programme Support Costs are used to finance the Administrative Unit of the UNCCD Secretariat in Bonn.

18. From Note 3 to the Financial Statements, total Programme Support Costs in 1999 were \$978,301. UNCCD, with the approval of the United Nations Department of Management, used \$315,000 of this amount to finance four posts in its Administrative Unit. The total cost to UNCCD in 1999 for administrative services provided by the United Nations was therefore \$663,301, or 7 per cent of total UNCCD expenditures.

19. The Board's audit of the UNCCD Financial Statements revealed that the physical location of the United Nations at Geneva and UNCCD in Bonn created logistical difficulties. The Board noted examples of Miscellaneous Income, Interest Income, Accounts Payable and Accounts Receivable accounts that were directly controlled by UNOG and for which UNCCD was unable to verify the supporting documentation. The Board also noted that UNCCD had established a financial monitoring system that enabled it to alert UNOG to cases of misposting or omission of entries. This control had identified one instance where an obligation valued at \$18,000 was recorded twice, as both UNCCD and UNOG raised documentation for the same travel advance. In addition, UNOG maintained UNCCD's accounts on the old General Accounting System (GAS) rather than on the recently installed Integrated Management information System (IMIS). UNCCD explained to the Board that it is reviewing the current arrangements and procedures in conjunction with the other United Nations bodies in Bonn.

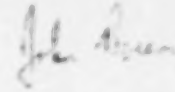
20. While recognising the controls that UNCCD has put in place to monitor its financial position, the Board recommends that UNCCD, in conjunction with other United Nations bodies at Bonn, complete its review of administrative arrangements as soon as possible in order to establish the most cost effective arrangements.

2. Cases of fraud and presumptive fraud

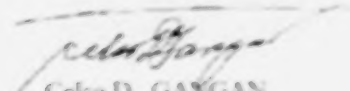
21. UNCCD reported no cases of fraud or presumptive fraud in 1999.

D. Acknowledgment

22. The Board of Auditors wishes to express its appreciation for the co-operation and assistance extended to its auditors by the Executive Secretary and the staff of UNCCD.



Sir John BOURN
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland



Celso D. GANGAN
Chairman, Philippine Commission on Audit



Shauket FAKIE
Auditor-General of the Republic of South Africa

31 October 2000

Audit Opinion

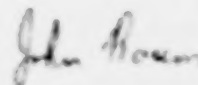
We have audited the accompanying financial statements, comprising Statements I to IV, Schedules 1.1 and 1.2 and the supporting notes of the United Nations Convention to Combat Desertification for the year ended 31 December 1999. The financial statements are the responsibility of the Executive Secretary. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, specialized agencies and the International Atomic Energy Agency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Executive Secretary, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the audit opinion.

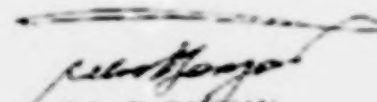
In our opinion, these financial statements present fairly, in all respects, the financial position as at 31 December 1999 and the results of operations and cash flows for the period then ended in accordance with the Convention's stated accounting policies set out in Note 2 of the financial statements.

Further, in our opinion, the transactions of the Convention which we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and Legislative Authority.

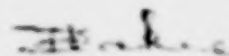
In accordance with Article XII of the Financial Regulations, we have also issued a long-form Report on our audit of the Convention's financial statements.



Sir John BOURN
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland



Celso D. GARGAN
Chairman, Philippine Commission on Audit



Shaiket FAKIE
Auditor-General of the Republic South Africa

31 October 2000



SECRETARIAT OF THE CONVENTION TO COMBAT DESERTIFICATION
SECRETARIAT DE LA CONVENTION SUR LA LUTTE CONTRE LA DESERTIFICATION



III. AUDITED AND CERTIFIED FINANCIAL STATEMENTS OF THE UNITED NATIONS CONVENTION TO COMBAT DESERTIFICATION FOR THE YEAR ENDED 31 DECEMBER 1999

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SECRETARIAT OF THE CONVENTION TO COMBAT DESERTIFICATION
SECRETARIAT DE LA CONVENTION SUR LA LUTTE CONTRE LA DESERTIFICATION



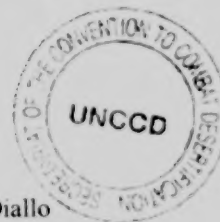
LETTER OF TRANSMITTAL

02 October 2000

Sir,

Pursuant to financial regulations 11.4, I have the honour to submit the audited accounts of the United Nations Convention to Combat Desertification for the year 1999 as at 31 December, which I hereby approve.

Accept, Sir the assurance of my highest consideration



Mr. Hama Arba Diallo
Executive Secretary
Permanent Secretariat

United Nations Convention to Combat Desertification

The Chairman
The Board of Auditors
United Nations
New York

CCD

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**AUDITED FINANCIAL STATEMENTS OF UNITED NATIONS CONVENTION
TO COMBAT DESERTIFICATION FOR THE YEAR ENDED 31 DECEMBER 1999**

CONTENTS

	PAGE
A REPORT OF THE EXECUTIVE SECRETARY	14 - 16
B CERTIFICATION OF THE FINANCIAL STATEMENTS	17
C FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1999	
Statement I Statement of income and expenditure and changes in reserves and fund balances for the year ended 31 December 1999	18
Statement II Statement of assets, liabilities, reserves and fund balances as at 31 December 1999	19
Statement III Statement of cash flow for the period ending 31 December 1999	20
Statement IV The Core Budget: Statement of appropriations for the year ended 31 December 1999	21
Schedule 1.1 Status of assessed contributions to the core budget as at 31 December 1999	22-25
Schedule 1.2 Status of voluntary contributions as at 31 December 1999	26
D NOTES TO THE FINANCIAL STATEMENTS	27 - 32



**UNITED
NATIONS**



**Convention to Combat
Desertification**

A REPORT OF THE EXECUTIVE SECRETARY

Paragraph 20 of the United Nations Convention to Combat Desertification (UNCCD) Financial rules (ICCD/COP(1)/11/Add.1 states that "the accounts and financial management of all funds governed by the present rules shall be subject to the internal and external audit process of the United Nations". In September 2000, the United Nations external auditors carried out a financial audit of UNCCD. This report is therefore based on the audited financial statements of UNCCD.

The permanent secretariat of the UNCCD started its operations in 1999. Funds raised for its operations during the period covered by the audited financial statements amounted to US\$ 10,143,196, which comprised of US\$5,585,876 under the core budget, US\$3,801,224 under the voluntary supplementary fund, US\$197,432 under the special fund for participation and US\$ 549,664 under the Bonn Fund.

In 1999 actual expenditure under all the trust funds amounted to US\$ 9,495,554. Under the core budget, the actual expenditure was US\$ 5,024,235. US\$ 2,839,424 were utilized from the Supplementary Fund.

US\$1,089,421 was spent under the special fund for Participation in facilitating participation of 119 delegates from the affected least developed and developing country Parties to the third session of the Conference of the Parties (Recife, Brazil, 15-26 November) as well as the participation of COP Bureau members in two inter-sessional meetings (Bonn, Germany).

Major activities and results thereof undertaken by the secretariat in the reporting period under the core budget are as follows:

1. Development of closer cooperation and synergies with activities of other relevant conventions, UN bodies and international, intergovernmental and non-governmental organizations was given priority in 1999. The executive direction and management held many consultations with government authorities, inter-governmental bodies and other partners on co-operation in the framework of the implementation of the Convention at the national, sub-regional and regional levels.
2. Awareness and advocacy for the desertification issues were intensified with the aim of widening the global support to the Convention. These efforts have resulted in a number of positive developments for UNCCD: 15 new Parties acceded to or ratified the Convention in 1999 bringing the total number of the Parties to 160. Further, substantial ground work was made to ensure that many other developed and developing countries will be joining the UNCCD in the very near future. The intensive activities undertaken during this period explain the level of expenditure under the core budget for this programme.
3. In accordance with decision 24/COP.2, the third session of the Conference of the Parties (COP 3) was held in Recife, Brazil from 15 to 26 November 1999 and 129 parties and observers to the Convention as well as several international organizations participated. COP 3 initiated the review

of the implementation of the convention and considered 43 reports from African affected country Parties and sub-regional Organizations. 23 decisions were adopted including the Convention budget for the biennium 2000/2001, the promotion and strengthening of relationships with other relevant conventions and international bodies, the programme of work of the Committee on Science and Technology, the Medium Term Strategy of the Secretariat, the procedure for the review of the implementation of the Convention, the first review of policies, operational modalities and activities of the Global Mechanism and an initiative towards a declaration of commitments to enhance the implementation of the Convention. 53 pre-session and 29 in-session documents were prepared for COP.3. A two-day meeting of Members of Parliaments was convened from 22 to 23 November 1999 with the participation of 39 Parliamentarians from 28 countries.

4. The secretariat facilitated the organisation of nine national awareness raising seminars, three subregional meetings, three regional meetings and four regional workshops. Two interregional meetings were supported under the Supplementary Fund. Several other seminars, workshops and meetings at national, subregional and regional levels related to the Convention were facilitated through various subregional, regional and non-governmental institutions. Support was provided on request to some countries to facilitate the implementation process.
5. During the period under review, 29 National Action Programmes have been finalized in various regions. Three Subregional Action Programmes have been launched in Africa and also three in the Latin American and the Caribbean region. Six regional thematic programme networks have been prepared both in Africa and in Asian regions. Support was also provided for the functioning of three Regional Co-ordination Units through extra budgetary contributions.
6. In the Africa region, the main emphasis was to assist in the preparation of the national reports for the COP.3. A total of 43 African countries submitted their reports to the Conference. Countries also made substantial progress in the elaboration of their national action programmes. By the end of 1999, 13 national action programmes were in place. The countries concerned are now consulting their development partners for the negotiation and conclusion of partnership agreements. Three subregional action programmes (SRAPs) have been finalized and the implementation of priority activities identified in the SRAPs has started. Support given to facilitate the elaboration of the Regional Action Programme (RAP) has resulted in the designation of institutional focal points to co-ordinate the six thematic programme networks for Africa, and in launching of the first activities of the RAP towards the end of the year with the full backing of the Regional Coordination Unit.
7. In the Asia region, the national awareness raising seminars strengthened the role of the national coordination bodies and encouraged the development of the national action programmes. Three countries were assisted in the preparation of their NAPs, bringing the total number of completed NAPs to six. The secretariat also facilitated the elaboration of the Regional Action Programme which resulted in the designation of the institutional focal points to co-ordinate the six thematic programme networks. Further, the secretariat facilitated the organization of Asian focal points meeting and the organization of inter-regional meeting between Africa and Asia on early warning systems. Necessary consultations on the additional regional implementation annex for Central and Eastern Europe was also facilitated.
8. In the Latin America and the Caribbean region, the Secretariat facilitated the organisation of four national awareness seminars, an expert meeting on benchmarks and indicators and the fifth meeting for the Regional Action Programme to Combat desertification. An information bulletin for the region

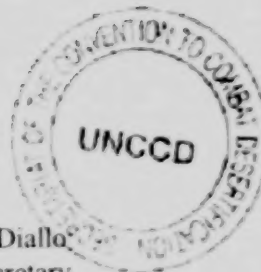
was published regularly and assistance was also provided for the operation of the regional information system DESELAC as well as to the functioning of the regional co-ordination unit. In 1999, eight national action programmes were in place and three Subregional Action Programmes were being developed.

9. In the Northern Mediterranean region the Secretariat provided technical advice in the preparation of the National and the Regional Action Programmes.
Further, the Secretariat participated in the preparation and organisation of the regional focal point and ministerial meetings of the Annex IV countries.
The efforts of some affected countries in the Region resulted in the adoption of one NAP in June 1999 and the adoption of the guidelines of another NAP in July 1999. The Draft Policy Document for the Regional Action Programme were adopted by the regional ministerial meeting in November 1999.
10. Through the above-mentioned activities the Convention has moved from awareness raising to the preparation of action programmes to combat desertification and the promotion of partnership agreements for their timely implementation.
11. External relations and public information focussed on inter-agency co-ordination, the co-operation with non-governmental organisations and public information to promote the Convention. Co-operation with the non-governmental community included support to the organisation of NGO meetings, support to NGO participation to the COP and other related meetings, strengthening of outreach and awareness raising capacities and strengthening of institutional capacities. The information system was upgraded, making the UNCCD web page more user friendly. The secretariat produced educational and public awareness material which have continued to promote awareness on desertification, of its global character, and its interrelations with other environmental issues, in particular with biodiversity and climate change.
12. Achievements in the area of administration and finance include successful relocation of the secretariat from Geneva to Bonn which resulted in all general services being readily available to both internal and external customers. The quality and timely submission of donor reports was improved through the establishment of a system to facilitate the process of funds monitoring and reporting. By the end of 1999, all due donor reports had been submitted to the respective donors. Internal financial and other controls were established with a view to ensure that all resources are properly recorded, controlled and utilised. Many services previously provided by UNOG such as maintaining of personnel data in the Integrated Management Information System (IMIS), reviewing, journalising, and processing and settlement of travel claims, reviewing, reconciling and preparing of accounting journal vouchers for all UNCCD financial transactions was taken over by the administrative and finance unit of the UNCCD.

B CERTIFICATION OF THE FINANCIAL STATEMENTS

September 22 2000

I certify that the appended financial statements of the United Nations Convention to Combat Desertification numbered I to IV, are fairly stated.



Hama Arba Diallo
Executive Secretary
Permanent Secretariat

United Nations Convention to Combat Desertification

UNITED NATIONS CONVENTION TO COMBAT DESERTIFICATION
Statement of income and expenditures and changes in reserves and fund balances
for the year ending 31 December 1999
(Expressed in US Dollars)

Statement I

	SCHEDULE/ NOTE REFERENCE	TRUST FUND FOR THE CORE BUDGET OF THE UNCCD (UX)	TRUST FUND FOR PARTICIPATION OF REPRESENTATIVES OF STATE PARTIES IN THE SESSIONS OF OF THE UNCCD CONFERENCE (UV)	TRUST FUND FOR VOLUNTARY FINANCING OF ACTIVITIES UNDER THE UNCCD (UW)	TRUST FUND FOR CONVENTION EVENTS ORGANIZED BY THE UNCCD SECRETARIAT (BM)	TOTAL
INCOME:						
Assessed Contributions	Note 2 (g) (i)	4 956 870	-	-	-	4 956 870
Voluntary Contributions	Note 2 (g) (ii)	601 384	102 221	3 836 350	542 477	5 082 432
Other/Miscellaneous Income						
Interest income	Note 2 (g) (iii)	27 622	20 211	27 530	7 187	82 550
Miscellaneous	Note 2 (g) (iv)	-	-	12 344	-	12 344
TOTAL INCOME		5 585 876	122 432	3 876 224	549 664	10 134 196
EXPENDITURE:						
TOTAL EXPENDITURE	Note 3	5 024 235	1 089 421	2 839 424	542 474	9 495 554
NET EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE		561 641	(966 989)	1 036 800	7 190	638 642
Transfers (to) from other funds		-	1 372 444	1 507 658	-	2 880 102
RESERVES AND FUND BALANCES: END OF PERIOD		561 641	405 455	2 544 458	7 190	3 518 744

The accompanying notes are an integral part of the financial statements

Statement II

UNITED NATIONS CONVENTION TO COMBAT DESERTIFICATION

Statement of assets, liabilities, reserves and fund balances

as at 31 December 1999

(Expressed in US Dollars)

	SCHEDULE/ NOTE REFERENCE	TRUST FUND FOR THE CORE BUDGET OF THE UNCCD (UX)	TRUST FUND FOR PARTICIPATION OF REPRESENTATIVES OF STATE PARTIES IN THE SESSIONS OF OF THE UNCCD CONFERENCE (UV)	TRUST FUND FOR VOLUNTARY FINANCING OF ACTIVITIES UNDER THE UNCCD (UW)	TRUST FUND FOR CONVENTION EVENTS ORGANIZED BY THE UNCCD SECRETARIAT (BM)	TOTAL
ASSETS						
Cash and term deposits	Note 2 (f), 4	577,862	1,275,419	2,834,394	207,666	4,895,341
Accounts receivable						
Assessed contributions receivable from Member States	Sched 1 1	396,736	-	-	-	396,736
Inter-fund balances receivable		131,913	-	217,223	-	349,136
Other accounts receivable	Note 5	506,177	69,293	52,772	1,887	630,129
TOTAL ASSETS		1,612,688	1,344,712	3,104,389	209,553	6,271,342
LIABILITIES						
Contributions/Payments received in advance	Sched 1 1	402,125	-	-	-	402,125
Unliquidated obligations		477,055	929,306	549,429	134,689	2,090,479
Accounts payable		-	9,951	-	38,343	48,294
Inter-fund balances payable		-	-	-	-	-
Other accounts payable	Note 6	171,867	-	10,502	29,331	211,700
TOTAL LIABILITIES		1,051,047	939,257	559,931	202,363	2,752,598
RESERVES AND FUND BALANCES						
Operating reserve	Note 7	-	163,413	425,914	-	589,327
Working Capital Reserve	Note 7	417,011	-	-	-	417,011
Cumulative surplus (deficit)		144,630	242,042	2,118,544	7,190	2,512,406
TOTAL RESERVES AND FUND BALANCES		561,641	405,455	2,544,458	7,190	3,518,744
TOTAL LIABILITIES, RESERVES AND FUND BALANCES		1,612,688	1,344,712	3,104,389	209,553	6,271,342

The accompanying notes are an integral part of the financial statements

Statement III

UNITED NATIONS CONVENTION TO COMBAT DESERTIFICATION

Statement of cash flow for the period ending 31 December 1999

(Expressed in United States dollars)

	TRUST FUND FOR THE CORE BUDGET OF UNCCD (UX)	TRUST FUND FOR PARTICIPATION OF REPRESENTATIVES OF STATE PARTIES IN THE SESSIONS OF THE UNCCD CONFERENCE (UV)	TRUST FUND FOR VOLUNTARY FINANCING OF ACTIVITIES UNDER THE UNCCD (UW)	TRUST FUND FOR CONVENTION EVENTS ORGANIZED BY THE UNCCD SECRETARIAT (BM)
	1999	1999	1999	1999
CASH FLOWS FROM OPERATING ACTIVITIES				
Net excess (shortfall) of income over expenditure (Statement I)	561,641	-966,989	1,036,800	7,190
(Increase) decrease in contributions receivable	-396,736	-	-	-
(Increase) decrease in other accounts receivable	-506,177	-69,293	-52,772	-1,887
Increase (decrease) in contributions received in advance	402,125	-	-	-
Increase (decrease) in accounts payable	171,867	929,306	10,502	29,331
Increase (decrease) in unliquidated obligations	477,055	-	549,429	134,689
Less: Interest income	-27,622	-20,211	-27,530	-7,187
NET CASH FROM OPERATING ACTIVITIES	682,153	-127,187	1,516,429	162,136
CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES				
(Increase) decrease in inter-fund balances receivable	131,913	-	-217,223	-
Increase (decrease) in inter-fund balances payable	-	9,951	-	38,343
Plus: Interest income	27,622	20,211	27,530	7,187
NET CASH FROM INVESTING AND FINANCING ACTIVITIES	-104,291	30,162	-189,693	45,530
CASH FLOWS FROM OTHER SOURCES				
Other adjustments to fund balances	-	1,372,444	1,507,658	-
NET CASH FROM OTHER SOURCES		1,372,444	1,507,658	-
NET INCREASE (DECREASE) IN CASH AND TERM DEPOSITS	577,862	1,275,419	2,834,394	207,666
CASH AND TERM DEPOSITS (01 January 1999)				
CASH AND TERM DEPOSITS (31 December 1999)	577,862	1,275,419	2,834,394	207,666

The accompanying notes are an integral part of the financial statements

UNITED NATIONS CONVENTION TO COMBAT DESERTIFICATION
THE CORE BUDGET STATEMENT OF APPROPRIATIONS
FOR THE YEAR ENDING 31 DECEMBER 1999
(Expressed in US Dollars)

Budget Classification	Appropriations		Expenditures		
	Initial Approved 1999 Budget (COP1)	Adjustments	Revised Approved 1999 Budget (COP2)	Disbursements	Unliquidated Obligations
Policy-making organs	48 000	-6 000	42 000	135	32 954
Executive direction and management	557 600	67 400	625 000	655 033	49 572
Substantive Support to the COP and its Subsidiary Bodies	842 800	-300 900	542 000	412 154	62 988
Facilitation of Implementation and Coordination	1 006 800	377 200	1 384 000	1 137 860	76 750
External Relations and Public Information	431 900	-43 900	388 000	209 093	56 049
Administrative Unit	1 094 300	-93 800	1 000 500	540 761	198 742
Global Mechanism	1 003 000	0	1 003 000	987 000	987 000
Programme Support Costs	648 000	0	648 000	503 322	503 322
Total	5 632 500	0	5 632 500	4 505 368	477 055
Working Capital Reserve	467 500		467 500	417 011	417 011
Grand Total	6 100 000	0	6 100 000	4 922 369	477 055
					5 399 424
					700 576

* This figure does not include an amount of US\$ 41 822 relating to exchange loss in the year 1999

The accompanying notes are an integral part of the financial statements

UNITED NATIONS CONVENTION TO COMBAT DESERTIFICATION
Status of assessed contributions as at 31 December 1999
(Expressed in US Dollars)

Schedule 1

Member States	Assessed Contributions for 1999	Contributions Received in 1999	Contributions Received in advance for 2000	Contributions receivable as at 31.12.1999
Trust Fund for the Core Budget of the UNCCD (UX)				
Afghanistan	200	-	-	200
Algeria	6 690	9 200	2 510	-
Angola	500	-	-	500
Antigua and Barbuda	150	200	50	-
Argentina	73 060	73 410	350	-
Armenia	790	-	-	790
Austria	67 160	67 460	300	-
Azerbaijan	1 590	-	-	1 590
Bahrain	1 240	1 683	443	-
Bangladesh	500	-	-	500
Barbados	560	1 430	810	-
Belgium	79 660	-	-	79 660
Belize	50	-	-	50
Benin	150	-	-	150
Bolivia	500	-	-	500
Botswana	740	1 600	1 060	-
Brazil	104 660	-	-	104 660
Burkina Faso	150	150	-	-
Burundi	50	-	-	50
Cambodia	50	50	-	-
Cameroon	640	-	-	640
Canada	196 540	197 530	990	-
Cape Verde	150	-	-	150
Central African Republic	50	-	-	50
Chad	50	-	-	50
Chile	9 370	9 370	-	-
China	69 440	69 775	335	-
Colombia	860	-	-	860
Comoros	50	-	-	50
Congo	50	-	-	50
Cook Islands	50	-	-	50
Costa Rica	1 140	-	-	1 140
Côte d'Ivoire	640	-	-	640
Cuba	1 830	-	-	1 830
Democratic Republic of Congo	500	-	-	500
Denmark	49 320	68 000	18 680	-
Djibouti	50	-	-	50
Dominica	50	-	-	50
Dominican Republic	1 040	-	-	1 040
Ecuador	1 440	-	-	1 440
Egypt	4 660	4 710	50	-
El Salvador	640	-	-	640
Equatorial Guinea	50	-	-	50
Eritrea	50	-	-	50
Ethiopia	450	384	-	66
European Community	123 920	124 700	780	-
Fiji	250	560	310	-
Finland	38 660	38 810	150	-
France	498 630	643 300	176 670	-
Gabon	1 040	-	-	1 040
Gambia	50	-	-	50
Georgia	230	-	-	230
Germany	699 850	706 200	6 350	-

UNITED NATIONS CONVENTION TO COMBAT DESERTIFICATION
Status of assessed contributions as at 31 December 1999
(Expressed in US Dollars)

Schedule 5

Member States	Assessed Contributions for 1999	Contributions Received in 1999	Contributions Received in advance for 2000	Contributions received as at 31.12.1999
Trust Fund for the Core Budget of the UNCCD (UK)				
Ghana	500	-	-	500
Greece	25 000	25 000	-	25 000
Grenada	50	-	-	50
Guatemala	1 290	-	-	1 290
Guinea	200	-	-	200
Guinea-Bissau	50	-	-	50
Guyana	50	-	-	50
Haiti	150	-	-	150
Honduras	200	60	20	280
Hungary	2 140	-	-	2 140
Iceland	2 200	2 200	-	4 400
India	21 350	21 400	70	42 820
Indonesia	13 000	13 100	100	26 200
Iran, Islamic Republic of	13 700	-	-	13 700
Ireland	15 000	22 000	6 000	43 000
Israel	24 000	24 700	90	48 790
Italy	387 600	389 600	1 000	778 200
Jamaica	450	400	-	850
Japan	1 246 000	1 246 600	7 400	2 500 000
Jordan	450	-	-	450
Kazakhstan	4 710	-	-	4 710
Kenya	500	-	-	500
Kiribati	50	-	-	50
Kuwait	9 570	-	-	9 570
Kyrgyzstan	900	-	-	900
Laos People's Democratic Republic	50	-	-	50
Lebanon	1 140	-	-	1 140
Lesotho	150	-	-	150
Liberia	150	-	-	150
Libyan Arab Jamahiriya	6 420	-	-	6 420
Luxembourg	4 000	4 000	50	8 050
Madagascar	200	200	60	460
Malawi	150	200	50	400
Malaysia	12 000	12 000	100	24 100
Mali	150	-	-	150
Malta	900	900	-	1 800
Marshall Islands	50	50	-	100
Mauritania	50	100	50	200
Mauritius	600	600	100	1 300
Mexico	99 000	-	-	99 000
Micronesia	50	-	-	50
Monaco	140	-	-	140
Mongolia	150	-	-	150
Morocco	2 000	4 000	1 000	7 000
Mozambique	50	-	-	50
Myanmar	500	-	-	500
Namibia	500	500	50	1 050
Nauru	50	-	-	50
Nepal	250	300	50	600
Netherlands	116 340	116 000	500	232 840
Nicaragua	50	-	-	50
Niger	150	150	-	300

UNITED NATIONS CONVENTION TO COMBAT DESERTIFICATION
Status of assessed contributions as at 31 December 1999
(Expressed in US Dollars)

Schedule 1

Member States	Assessed Contributions for 1999	Contributions Received in 1999	Contributions Received in advance for 2000	Contributions receivable as at 31.12.1999
Trust Fund for the Core Budget of the UNCCD (US)				
Nigeria	2 870	-	-	2 870
Niue	50	-	-	50
Norway	43 520	60 000	16 480	-
Oman	3 670	3 670	-	-
Pakistan	4 210	-	-	4 210
Palau	50	100	50	-
Panama	940	1 300	360	-
Paraguay	990	-	-	990
Peru	6 740	3 400	2 900	-
Portugal	26 740	29 890	150	-
Qatar	1 390	-	-	1 390
Republic of Korea	5 910	-	-	5 910
Republic of Moldova	750	-	-	750
Romania	4 780	4 010	50	-
Rwanda	50	-	-	50
Saint Kitts and Nevis	50	-	-	50
Saint Lucia	50	-	-	50
Saint Vincent and the Grenadines	50	-	-	50
Samoa	50	-	-	50
San Marino	20	-	-	20
Sao Tome and Principe	50	-	-	50
Saudi Arabia	40 600	-	-	40 600
Senegal	450	-	-	450
Seychelles	150	-	-	150
Sierra Leone	50	-	-	50
Singapore	5 250	-	-	5 250
Solomon Islands	50	-	-	50
South Africa	26 120	30 000	3 880	-
Spain	184 740	254 700	69 960	-
Sri Lanka	700	-	-	700
Sudan	450	-	-	450
Swaziland	150	200	50	-
Sweden	77 380	106 700	29 320	-
Switzerland	86 690	119 500	32 810	-
Syrian Arab Republic	4 560	6 300	1 740	-
Tajikistan	350	-	-	350
Togo	50	-	-	50
Tonga	50	-	-	50
Tunisia	2 030	2 790	670	-
Turkey	31 380	31 570	190	-
Turkmenistan	590	-	-	590
Tuvalu	50	-	-	50
Uganda	250	-	-	250
United Arab Emirates	12 690	12 716	26	-
United Kingdom	363 180	365 070	1 890	-
United Republic of Tanzania	200	-	-	200
Uruguay	2 000	-	-	2 000
Uzbekistan	2 630	10 440	7 810	-
Vanuatu	50	-	-	50
Venezuela	12 590	-	-	12 590
Yemen	500	-	-	500
Yemen	500	-	-	500

UNITED NATIONS CONVENTION TO COMBAT DESERTIFICATION
Status of assessed contributions as at 31 December 1999
(Expressed in US Dollars)

Schedule 1.1

Member States	Assessed Contributions for 1999	Contributions Received in 1999	Contributions Received in advance for 2000	Contributions receivable as at 31.12.1999
Trust Fund for the Core Budget of the UNCCD (UX)				
Zambia	150	-	-	150
Zimbabwe	640	640	-	0
Total	4,956,870	4,982,259	402,125	196,736

Schedule 1.2

UNITED NATIONS CONVENTION TO COMBAT DESERTIFICATION
Status of voluntary contributions as at 31 December 1999
(Expressed in US dollars)

Countries/Trust Funds	Voluntary Contributions Received in 1999
I. Trust Fund for the Core Budget of the UNCCD (UX)	
Germany	601,384
Total	601,384
II. Trust Fund for participation of Representatives of States Parties in the session of the UNCCD conference (UV)	
Canada	32,951
Norway	69,270
Total	102,221
III. Trust Fund for voluntary financing of activities under UNCCD (UW)	
Belgium	57,462
Canada	36,714
Chile	5,000
Denmark	25,000
Finland	175,803
France	44,344
Ireland	19,790
Italy	495,650
Japan	1,800,024
Mexico	20,000
Netherlands	25,000
Norway	26,379
Spain	158,644
Sweden	28,980
Switzerland	409,484
United Kingdom	30,000
United States	55,000
Sub Total	3,413,274
Public donations	42,998
Subventions	
IFAD	30,000
OAU	100,000
UNEP	207,500
WMO	42,578
Total	3,836,350
IV. Trust Fund for Convention Events organized by CCD Secretariat (BM)	
Germany	542,477
Total	542,477
GRAND TOTAL	5,082,432

D NOTES TO THE FINANCIAL STATEMENTS

Note 1 Statement of Purpose

The permanent Secretariat of the United Nations Convention to Combat Desertification was established on 1 January 1999 with the following purposes:

- a) To make arrangements for sessions of the Conference of the Parties (COP) and its subsidiary bodies established under the Convention and to provide them with services as required;
- b) To compile and transmit reports submitted to it;
- c) To facilitate assistance to the affected developing country Parties, on request, particularly those in Africa, in the compilation and communication of information required under the Convention;
- d) To coordinate its activities with the secretariats of other relevant international bodies and conventions;
- e) To enter, under the guidance of the Conference of the Parties, into such administrative and contractual arrangements as may be required for the effective discharge of its functions;
- f) To prepare reports on the executions of its functions under this Convention and present them to the Conference of the Parties; and
- g) To perform such other secretariat functions as may be determined by the Conference of the Parties.

Note 2 Accounting Policies

The following are the significant accounting policies of the United Nations Convention to Combat Desertification (UNCCD) :

(a) Rules and procedures

The accounts of the Convention are maintained in accordance with the Financial Regulations of the United Nations, its own Financial Rules and in conformity with the United Nations System Common Accounting Standards (A/48/530) as recognized by General Assembly resolution 48/216 C of 23 December 1993 and subsequent revisions.

Under the financial procedures adopted by the Conference of the Parties, the Executive Secretary prepares the administrative core budget for the following biennium and submits it to the COP for its consideration and approval. The approved budget constitutes authority to the Executive Secretary to issue allotments, incur obligations and make payments for the purposes for which the appropriations were approved. 1999 was the first year of operation of the permanent secretariat of UNCCD and the COP approved a core budget of US\$ 6.1 million, out of which the equivalent of DM 1 million was paid by the host Government. The remaining amount is raised by all Parties, who are invited to make contributions based on an adjusted United Nations scale of assessment.

(b) Accounting convention

The accounts are prepared on the historical cost basis, modified to the extent that the cost of all property acquired is charged as an expense in the year of purchase except for the period under review where property donated in kind by the host Government was valued using the average UN rate of exchange in 1999.

UNCCD's normal accounting period is a biennium consisting of two consecutive calendar years. However, the first year of operation covered the second year of the biennium to 31 December 1999.

The UNCCD's accounts are maintained on a "fund accounting" basis. Separate funds for general or special purposes may be established by the Conference of the Parties or the Executive Secretary. Each fund is maintained as a distinct financial and accounting entity, with a separate self-balancing double-entry group of accounts.

(c) Contingent liabilities

The expenditures do not include possible costs to cover contingencies under Appendix D to the United Nations staff rules, for personnel financed under resources obtained from contributions.

(d) Income tax refund policy

The UNCCD salaries are charged to the budget on a net basis during the year in which the services have been rendered. Income tax refunds are charged to the year in which they are made to the staff member.

(e) Unliquidated obligations

Unliquidated obligations are expenditures based on firm obligations entered into, but not disbursed, in the financial period. Unliquidated obligations for the current period in respect of all UNCCD activities remain valid for 12 months following the end of the period to which they relate.

(f) Cash and term deposits

Funds on deposit in interest bank accounts, time deposits and call accounts are shown in the statements of assets and liabilities as cash. All term deposits are placed in line with the United Nations investments policies and guidelines.

(g) Income

(i) Assessed contributions from Party members

Income from assessed contributions is recognized on an accruals basis based on the budget approved by the Conference of the Parties.

(ii) Voluntary contributions

Voluntary contributions to UNCCD trust funds are recorded as income when received.

(iii) Interest income

Interest income is based only on amounts received and accrued from cash and term deposits relating to the financial period. Interest due from cash and term deposits made in the financial period but not maturing until future periods is recorded as accounts receivable.

(iv) Miscellaneous income

Refunds of expenditures charged to prior financial periods, net gains on exchange, moneys accepted for which no purpose is specified and proceeds from the sale of surplus property, are credited to miscellaneous income.

(v) Contributions

All contributions to Secretariat's activities are deposited with United Nations Office in Geneva. UNCCD operates an imprest account in Deutsche Mark to cover its expenditure in Bonn. Reports on the utilization of the imprest account are submitted to UNOG on a regular basis.

(h) Translation of currencies

The financial statements of the UNCCD are presented in United States Dollars, which is the currency best suited to its operations. As per United Nations Accounting standards, transactions in other currencies are recorded in United States Dollars by applying the United Nations operational rate of exchange at the time of the transaction. Realised exchange gain or loss are charged to the appropriate budgetary account. An amount of US\$ 41,822 included in the operating expenses relates to exchange loss in 1999.

Note 3 Trust Funds expenditures

The total expenditure of US\$ 9,495,554 in Statement I includes the following amounts for 1999 financed from the UNCCD trust funds (in United States dollars)

Description	1999
Staff and other personnel costs	3,159,270
Travel on official business	2,281,235
Contractual services	91,709
Operating expenses	249,495
Acquisitions	1,255
Grants and contributions to joint activities	2,734,289
Programme support costs	<u>978,301</u>
Total	<u>9,495,554</u>

Note 4 Cash and term deposits

(in United States dollars)

	As at 31 December 1999
Imprest - Bonn	275,563
Imprest - Field	540,000
Interest-bearing bank deposits maturing within twelve months	<u>4,079,778</u>
Total	<u>4,895,341</u>

Note 5 Other accounts receivable

(in United States dollars)

	As at 31 December 1999
Education grant advances	50,211
Travel advances	251,900
Salary advances	182,814
Value Added Tax	13,106
Accrued interest receivable	24,387
Others	<u>107,710</u>
Total	<u>630,128</u>

Note 6 Other accounts payable

(in United States Dollars)

	As at 31 December 1999
Staff salaries- Field	166,232
Staff salaries-Bonn	29,959
Others	<u>15,509</u>
Total	<u>211,700</u>

Note 7 Operating and Working Capital Reserve

Reserves are established at 15% and 8.3% of the total expenditure under the voluntary trust funds and core budget respectively, to cover unforeseen shortfall, uneven cashflows, unplanned costs and other final contingencies. In 1999 there was no need to draw down on the operating reserves and therefore the level of reserve was reported as being US\$589,327 (operating reserve) and US\$417,011 (working capital reserve) (Statement II).

Note 8 Programme support

The United Nations retains 13% of the actual expenditures of all established UNCCD trust funds for programme support, subject to specific exceptions made by the Controller. When a project is shared between UNCCD and another United Nations agency, programme support charges are also shared accordingly between both organizations with the combined amount not exceeding 13%. In 1999 an amount of US\$978,301 has been reported as programme support (Note 3)

Note 9 Non-expendable inventory

Valuation of non-expendable property is limited to items with a value of US\$500 and above. In 1999 furniture and equipment valued at US\$354,622 was donated by the Government of the Federal Republic of Germany.

Note 10 Disclosure as to participation in the United Nations Joint Staff Pension Fund

UNCCD is a member organization participating in the United Nations Joint Staff Pension Fund which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. The financial obligation of the organization to the United Nations Joint Pension Fund consists of its mandated contribution at the rate established by the United Nations General Assembly together with its share of any actuarial deficiency payments that might become payable pursuant to article 36 of the regulations of the United Nations Joint Staff Pension Fund.

Note 11 Other donations in kind

Services of a senior scientific officer were donated by the World Meteorological Organization (WMO). In addition the German and Italian governments provide the services of two and one junior professionals respectively. The cost of these services was US\$285,000 as indicated in the table below:

(in United States Dollars)

	As at 31 December 1999
World Meteorological Organization (1P-5)	105,000
Federal Republic of German (2 Junior professionals)	120,000
Government of Italy	<u>60,000</u>
Total	285,000

- - - - -



UNITED
NATIONS



**Convention to Combat
Desertification**

Distr.
GENERAL

ICCD/COP(4)/2/Add.5 (B)
7 December 2000

ENGLISH ONLY

CONFERENCE OF THE PARTIES
Fourth session
Bonn, 11-22 December 2000
Item 6 (e) of the provisional agenda¹

PROGRAMME AND BUDGET

(e) AUDITED FINANCIAL STATEMENTS FOR THE CONVENTION'S TRUST FUNDS IN 1999

Report of the United Nations Board of Auditors

Note by the secretariat

Addendum

1. Pursuant to paragraph 20 of the UNCCD financial rules (ICCD/COP(1)/11/Add.1, decision 2/COP.1, annex), the accounts and financial management of all funds governed by the present rules shall be subject to the internal and external audit process of the United Nations.
2. Attached herewith are the audited financial statements of the Global Mechanism (GM)² as at and for the year ended 31 December 1999 and as at 31 December 1998 and for the period 28 July to 31 December 1998 for consideration by the Conference of the Parties.
3. The report of the United Nations Board of Auditors on the financial and management issues of the Convention for the year ended 31 December 1999 is contained in ICCD/COP(4)/2/Add.5 (A).

¹ ICCD/COP(4)/1.

² As received from the Global Mechanism and reproduced without formal editing by the UNCCD secretariat.

PRICEWATERHOUSECOOPERS

**GLOBAL MECHANISM OF THE UN CONVENTION
TO COMBAT DESERTIFICATION**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 1999 AND FOR THE PERIOD
28 JULY 1998 TO 31 DECEMBER 1998**

PRICEWATERHOUSECOOPERS

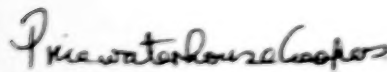
PricewaterhouseCoopers SpA

The International Fund for Agricultural Development (IFAD)
as Administrators for the Global Mechanism of the UN Convention to
Combat Desertification

We have audited the financial statements of the Global Mechanism of the UN Convention to Combat Desertification (the Global Mechanism) as at and for the year ended 31 December 1999 and as at 31 December 1998 and for the period 28 July 1998 to 31 December 1998. These financial statements are the responsibility of the Global Mechanism's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Global Mechanism of the UN Convention to Combat Desertification at 31 December 1999 and 1998 and the results of its operations and its cash flows for the periods then ended in accordance with International Accounting Standards.



Rome, 25 May 2000

GLOBAL MECHANISM OF THE UN CONVENTION TO COMBAT DESERTIFICATION

Financial Statements
For the year ended 31 December 1999
and for the period 28 July 1998 to 31 December 1998

Statement of Revenue and Expenses

Statement of Changes in Accumulated Surplus

Balance Sheet

Statement of Cash Flows

Statement of Resources Available for Commitment

Notes to the Financial Statements

Individual Donor Statements

Appendix A - Core Budget Administration Account

Appendix B - Germany

Appendix C - Sweden

Appendix D - Switzerland

Appendix E - Portugal

Appendix F - Islamic Development Bank

Report of the External Auditor

The Notes and Appendices to the accompanying statements form an integral part of the Financial Statements.

GLOBAL MECHANISM OF THE UN CONVENTION
TO COMBAT DESERTIFICATION

STATEMENT OF REVENUE AND EXPENSES
For the year ended 31 December 1999 and the period ended
31 December 1998
(US Dollars)

	CBAA		VCAEA		SRCF		Total	
	1999	1998	1999	1998	1999	1998	1999	1998
Revenue								
Contributions (Note 3)	725 687		6 000	127 171			731 687	127 171
Interest Income (Note 4)			38 298	6 750			38 298	6 750
Total Revenue	725 687	0	44 298	133 921	0	0	769 985	133 921
Administrative Expenses								
Staff Costs	375 672			71 575			375 672	71 575
External Auditor's Fees	3 385			4 000			3 385	4 000
Office Equipment & Maintenance	21 861						21 861	0
Hospitality	1 055						1 055	0
Day Travel	119 801			16 483			119 801	16 483
Service Charge	79 000			11 047			79 000	11 047
Total Administrative Expenses	600 174	0	0	103 105	0	0	600 174	103 105
Operating Expenses								
Consultants	68 333		6 000				94 333	
Media Communications & Networking	27 621						27 621	0
Publications	10 159						10 159	0
Total Operating Expenses	125 513	0	6 000	0	0	0	131 513	0
Total Expenses	725 687	0	6 000	103 105	0	0	731 687	103 105
Net Revenue less Expenses	0	0	38 298	30 816	0	0	38 298	30 816

STATEMENT OF CHANGES IN ACCUMULATED SURPLUS
For the year ended 31 December 1999 and the period ended 31 December 1998
(US Dollars)

	CBAA		VCAEA		SRCF		Total	
	1999	1998	1999	1998	1999	1998	1999	1998
Opening Balance			6 350		24 066		30 416	0
Net Revenue less Expenses			38 298	30 416			38 298	30 416
Accumulated Surplus	0	0	44 648	30 416	24 066	0	68 714	30 416
Transfer to/(from) SRCF Account (Note 2)			24 066	(24 066)	(24 066)	24 066		
Accumulated Surplus at 31 December 1999	0	0	68 714	6 350	0	24 066	68 714	30 416

GLOBAL MECHANISM OF THE UN CONVENTION
TO COMBAT DESERTIFICATION

BALANCE SHEET

As at 31 December 1999 and 31 December 1998
(U.S. Dollars)

	1999				1998			
	CRAA	VC/AEA	SBCF	Total	CRAA	VC/AEA	SBCF	Total
Assets								
Cash	912 824	301 548		1 216 372	143 546	24 066		167 612
Contributions Receivable (Notes 6 and 7)		62 531		62 531	145 296			145 296
Interfund Receivable (Note 7)			2 500 000	2 500 000				
Interest Receivable (Note 4)			86 359	86 359		6 350		6 350
Total Assets	912 824	364 084	2 586 359	3 865 247	0	295 192	24 066	319 258
Liabilities, Deferred Revenue, Accumulated Surplus and Reserve								
Accrued Liabilities (Note 8)	159 904	0 000		159 904		43 546		43 546
Interfund Payables								
Deferred Revenue (Note 3)	491 633			491 633				
Deferred Interest Income (Note 4)	261 287	293 350	2 500 000	3 055 637		245 296		245 296
Accumulated Surplus Revenue - SBCF Account (Note 2)			86 359	86 359				
		18 714		18 714		6 350		6 350
							24 066	24 066
Total Liabilities, Deferred Revenue, Accumulated Surplus and Reserve	912 824	364 064	2 586 359	3 865 247	0	295 192	24 066	319 258

STATEMENT OF CASH FLOWS

For the year ended 31 December 1999 and the period ended 31 December 1998

(US Dollars)

	1999	1998
Cash flows from Financing Activities		
Contributions to Core Budget Administration Account	986 974	
Contributions to VCAEA	134 834	227 171
Cash flows from Operating Activities		
Operating and Administrative Expenses Paid	(117 696)	(59 559)
Interest Income VCAEA	44 648	
Net Cash Provided by Operating Activities	1 048 760	167 612
Net Increase in Cash	1 048 760	167 612
Cash at beginning of the period	167 612	0
Cash at the end of the year	1 216 372	167 612
Reconciliation of net revenue less operating expenses to net cash provided by operating activities		
Net Revenue less Operating Expenses	38 298	30 416
Increase in Accrued Liabilities	122 358	43 546
Increase in Interfund Payables	491 633	
Increase in Deferred Revenue	2 807 341	245 296
Increase in Deferred Interest Income	86 359	
Decrease/(Increase) in VCAEA Interest Receivable	6 350	(6 350)
Increase in SRCF Interest Receivable	(86 359)	
Increase in Interfund Receivables	(2 500 000)	
Decrease/(Increase) in Contributions Receivable	82 780	(145 296)
	1 048 760	167 612

**GLOBAL MECHANISM OF THE UN CONVENTION
TO COMBAT DESERTIFICATION**

**STATEMENT OF RESOURCES AVAILABLE FOR COMMITMENT
As at 31 December 1999 and 31 December 1998
(US Dollars)**

	1999				1998			
	CBA	VCA	SR	Total	CBA	VCA	SR	Total
Cash	912 824	303 548		1 216 372	143 546	24 066		167 612
Contributions Receivable		62 516		62 516	145 296			145 296
Interfund Receivable			2 500 000	2 500 000				
Interest Receivable			86 359	86 359	6 350			6 350
	912 824	366 064	2 586 359	3 865 247	0	295 192	24 066	319 258
Less:								
Accrued Liabilities	(159 904)	(6 000)		(165 904)	(43 546)			(43 546)
Interfund Payables	(491 633)			(491 633)				
	(651 537)	(6 000)	0	(657 537)	0	(43 546)	0	(43 546)
Resources Available (Note 2(g))	261 287	360 064	2 586 359	3 207 710	0	251 646	24 066	275 712
Less:								
Funds Committed not Accrued	(82 868)	(6 000)		(88 868)				
Uncommitted Resources Available (Note 2(g))	178 419	354 064	2 586 359	3 118 842				

Global Mechanism of the UN Convention to Combat Desertification
NOTES TO THE FINANCIAL STATEMENTS

Note 1: Brief Description of the Global Mechanism

The United Nations Convention to Combat Desertification (UNCCD) created the Global Mechanism as a means of mobilising resources to protect dryland areas. At the First Conference of the Parties of the UNCCD held in October 1997, IFAD was selected to house the Global Mechanism by a ministerial-level assembly of over 113 countries that had ratified the Convention. The Global Mechanism has a Collaborative Institutional Arrangement to support it, involving UNDP, IFAD and the World Bank. The Managing Director of the Global Mechanism reports directly to the President of IFAD.

The Global Mechanism aims to mobilise funds by enhancing the cost-effectiveness of existing aid flows. The basis for implementation of the Convention comprises national, sub-regional and regional Action Plans. In addition, the Global Mechanism is involved in partnership building, establishing broad contacts among international organisations, the NGO community, research centres, governments, regional development banks, the private sector and individuals committed to combating desertification. Moreover, the Global Mechanism is developing a database, collecting and managing data on desertification and "matching" resource needs and resource availability. Part of this involves accessing new and innovative sources of funds and making them available for Convention implementation.

Note 2: Summary of Significant Accounting Policies

(a) Basis of Accounting

The Global Mechanism recognises revenue and expenses, in accordance with International Accounting Standards, as they occur (and not as cash is received or paid) and reported in the period to which they relate. The excess of revenue over expenses is transferred to the Accumulated Surplus, including interest except that which is restricted by donor agreements.

The use of funds is restricted in accordance with the individual agreements with Donors. Contributions from the UNCCD have been recorded in the Core Budget Administration Account (CBAA). Voluntary contributions from Donors have been recorded in the Voluntary Contributions Administrative Expenses Account (VCAEA). The TAG 447 contribution from IFAD is recorded in the Special Resources for CCD Finance (SRCF) Account.

(b) Administration and Operating Expenses, including Service Charge

The President's Bulletin - Accounts of the Global Mechanism (GM) of 28 September 1999, defines the use of funds in the following way: the CBAA is used for administrative costs of the GM such as staff and office costs. It can also be used for operating costs directly relating to the GM such as a) employment of consultants to prepare action plans; b) marketing functions of the GM; and c) organisation of financing conference.

The VCAEA can be used for both administrative and operating costs, but in practice will be used to fund initial development of projects.

The SRCF is used to provide financing assistance for development programmes.

In 1999 operating expenses have been primarily financed from the contributions received from UNCCD, as permitted by the terms of the related agreement.

The service charge has been charged to the CBAA in accordance with IFAD's rules and regulations.

(c) Donor Contributions

Contributions are recorded in Receivables and as Resources Available on the date of receipt of formal communication from the Donor or actual receipt of funds, whichever occurs earlier. Contributions received for which no expenditures have yet been incurred are deferred until future periods to be matched against the related costs. Contributions are subsequently recorded as Revenues in the period in which the related expenditures occur.

(d) Translation and Conversion of Currencies

- (i) IFAD, on behalf of the Global Mechanism, conducts its operations in several currencies, and at the present time maintains its accounting records in United States Dollars. The Financial Statements are expressed in United States Dollars solely for the purpose of summarising the financial position.
- (ii) The Global Mechanism has translated all items in its Balance Sheet at market rates of exchange at year-end.
- (iii) Revenue and expense items in currencies other than the United States Dollar have been recorded at the rates of exchange ruling when the transaction occurred.

- (iv) The exchange adjustments arising from the translation of assets and liabilities in currencies other than the United States Dollar are credited or charged to the Statement of Revenue and Expenses in line with the requirements of International Accounting Standard (IAS) No 21 (revised).

The movements in the foreign exchange rate account is explained as follows:

	1999	1998
Opening balance at 1 January	0	0
Exchange movements for the year on:		
Contributions Receivable	(9 946)	
Deferred Revenue	<u>9 946</u>	
Closing balance at 31 December	<u>0</u>	<u>0</u>

(e) Provisions

Provisions are established when the Global Mechanism has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service separation entitlements as a result of services rendered by employees up to the balance sheet date.

(f) Statement of Cash Flows

The Statement of Cash Flows has been prepared in accordance with International Accounting Standard (IAS) No. 7 (revised). For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

(g) Resources available for Commitment

Resources available for commitment are those resources that have been contributed by Donors and others or have been derived, or are to be derived, from operations. Uncommitted resources available are the aforementioned resources less any commitments made for budgetary purposes that do not constitute expenses or accruals for accounting purposes, such as ear-marked workshops.

In practice, Resources Available may be defined as cash, accrued interest and liabilities, amounts receivable from Donors, and balances owed to and from IFAD and other funds administered by IFAD.

Note 3: Statement of Contributions

Donor	Currency	Local Currency	USD Equivalent	Recognised Revenue	Deferred Revenue	Transfer (from)/to SRCF	Balance Available
Core Budget Administrative Account							
UNCCD	USD	986 974	986 974	725 687	261 287		261 287
Balance at 31 December 1999		986 974	986 974	725 687	261 287		261 287
Balance at 31 December 1998			0	0	0	0	0
Voluntary Contributions Administrative Expenses Account							
Germany	USD	100 000	100 000		100 000		100 000
Sweden						24 066	24 066
Switzerland	CHF	200 000	135 350		135 350		135 350
Portugal	USD	50 000	50 000		50 000		50 000
Islamic Development Bank	USD	12 000	12 000	6 000	6 000		6 000
Balance at 31 December 1999			297 350	6 000	291 350	24 066¹	315 416
Balance at 31 December 1998			372 467	127 171²	245 296	(24 066)	245 296
Special Resources for the CCD Finance Account							
IFAD TAG 447	USD	2 500 000	2 500 000		2 500 000		2 500 000
Sweden	USD	24 066	24 066			(24 066)	
Balance at 31 December 1999			2 524 066		2 500 000	(24 066)	2 500 000
Balance at 31 December 1998			0	0	0	24 066	24 066

¹ In accordance with the approval given by Sida on 23 March 2000, the remainder of the Swedish contribution was transferred from the SRCF account to the VCAE account.

² In 1998 recognised revenue related entirely to the Swedish contribution.

Note 4: Interest Income

Until February 1999 the funds of the Global Mechanism were pooled with the Supplementary Funds administered by IFAD and invested in accordance with IFAD's investment policy. Investment income was allocated to the Fund on the basis of the related proportion of the underlying pooled assets.

On 1 February 1999, the Global Mechanism opened its own USD bank account where resources are held pending utilisation. Funds of the Global Mechanism previously held in IFAD's Supplementary Funds were transferred to this account.

The average rate of return on the funds of the Global Mechanism in 1999 was 4.93 percent (1998: 5.3%).

Interest is recognised in the statement of Revenue and Expenses as earned except to the extent that it is restricted by donor agreements.

Note 5: Staff Costs and Benefits

The Global Mechanism had four employees as at 31 December 1999 (31 December 1998: 1 employee). These employees are on IFAD's payroll and are therefore part of the benefit system offered by IFAD. These benefits include the participation in the United Nations Joint Staff Pension Fund and in the After Service Medical Coverage administered by FAO. For further information regarding these benefits, refer to the Financial Statements of IFAD.

IFAD charges the Global Mechanism for the full costs incurred on behalf of the employees of the Global Mechanism.

Note 6: Cash and Interest Receivable

Contributions receivable into the SRCF Account and interest receivable relate to the liquid resources held, and matured thereon, respectively, by IFAD (TAG 447).

Note 7: Contributions Receivable

Donor	Local Currency	Contribution US Dollars Equivalent	US Dollars		
			Cumulative To Date Received	Receivable	
<u>Core Budget Administrative Expenses Accounts</u>					
UNCCD	USD	986 974	986 974	986 974	0
Balance at 31 December 1999		986 974	986 974		0
Balance at 31 December 1999		0	0		0
<u>Voluntary Contributions Administrative Expenses Account</u>					
Germany	USD	100 000	100 000	100 000	62 516
Sweden	SEK	1 000 000	127 171	127 171	
Switzerland ¹	CHF	200 000	135 350	72 834	
Portugal	USD	50 000	50 000	50 000	
Islamic Development Bank	USD	12 000	12 000	12 000	
Balance at 31 December 1999		424 521	362 005		62 516
Balance at 31 December 1999		372 467	227 171		145 296
<u>SRCF</u>					
IFAD TAG 447	USD	2 500 000	2 500 000	2 500 000	0
Balance at 31 December 1999		2 500 000	2 500 000 ²		0
Balance at 31 December 1999		0	0		0

¹ The second instalment of CHF 100,000 was received in January 2000.

² The IFAC grant to the Global Mechanism was approved in April 1999, however, the funds have not been transferred to the GM bank account and the amount is reflected as an Interfund receivable.

Note 8: Accrued Liabilities

This comprises the following balances:

	1999			1998		
	CBA	VCAEA	Total	CBA	VCAEA	Total
Staff salaries and benefits	25 236		25 236		27 449	27 449
Short-term staff accruals	5 006		5 006		1 050	1 050
Consultants	84 084	6 000	90 084			0
Audit Fee	3 385		3 385		4 000	4 000
Service Charge			0		11 047	11 047
Communications	8 932		8 932			0
Staff travel	16 848		16 848			0
Office equipment Rental	11 134		11 134			0
Sundry	5 279		5 279			0
Total	159 904	6 000	165 904	0	43 546	43 546

**GLOBAL MECHANISM OF THE UN CONVENTION
TO COMBAT DESERTIFICATION**

Appendix A

**STATEMENT OF THE CORE BUDGET ADMINISTRATION ACCOUNT
As at 31 December 1999 and 31 December 1998
(US Dollars)**

	1999	1998
Total Amount of Contribution	986 974	0
	<u>This Year</u>	<u>Cumulative</u>
Expenditures		
Administrative Expenses		
Staff Costs	(375 072)	(375 072)
External Auditor's Fees	(3 385)	(3 385)
Office Equipment and Maintenance	(21 861)	(21 861)
Hospitality	(1055)	(1055)
Duty Travel	(119 801)	(119 801)
Service Charge	(79 000)	(79 000)
	(600 174)	(600 174)
Operational Expenses		
Consultants Fees	(88 333)	(88 333)
Media Communications and Networking	(27 021)	(27 021)
Publications	(10 159)	(10 159)
	(125 513)	(125 513)
Total amount expended in the period	(725 687)	(725 687)
Less Funds Committed not Accrued		(82 868)
Total Amount Available for Commitment	178 419	0

**GLOBAL MECHANISM OF THE UN CONVENTION
TO COMBAT DESERTIFICATION**

Appendix B

STATEMENT OF GERMAN CONTRIBUTION
As at 31 December 1999 and 31 December 1998
(US Dollars)

	1999	1998
Total Amount of Contribution (received 28 July 1998)	100 000	100 000
Expenditures	0	0
Total amount expended in the period	0	0
Total Amount Available for Commitment	100 000	100 000

NB: Interest earned by the Global Mechanism on these funds is reflected in the pooled funds of the VCAE Account.

**GLOBAL MECHANISM OF THE UN CONVENTION
TO COMBAT DESERTIFICATION**

Appendix C

**STATEMENT OF SWEDISH CONTRIBUTION
As at 31 December 1999 and 31 December 1998
(US Dollars)**

	1999	1998		
Total Amount of Contribution (received 15 January 1998)	127 171	127 171		
	<u>This Year</u>	<u>Cumulative</u>	<u>This Period</u>	<u>Cumulative</u>
Expenditures				
Programme Officer	(70 421)	(70 421)	(70 421)	(70 421)
Duty Travel	(16 483)	(16 483)	(16 483)	(16 483)
Temporary Support	(1 154)	(1 154)	(1 154)	(1 154)
Audit Fees	(4 000)	(4 000)	(4 000)	(4 000)
IFAD Service Charge	(11 047)	(11 047)	(11 047)	(11 047)
Total amount committed in the period	0	(103 105)	(103 105)	(103 105)
Unspent Balance transferred to the SRCF Account on 31 December 1998 and subsequently transferred to the VCAE Account on 31 December 1999		24 066		24 066

NB: Interest earned by the Global Mechanism on these funds is reflected in the pooled funds of the VCAE Account

**GLOBAL MECHANISM OF THE UN CONVENTION
TO COMBAT DESERTIFICATION**

Appendix D

**STATEMENT OF SWISS CONTRIBUTION
As at 31 December 1999 and 31 December 1998
(US Dollars)**

	1999	1998
Total Amount of Contribution (January 1999 and January 2000)	135 350	145 296
Expenditures	0	0
Total amount expended in the period	0	0
Total Amount Available for Commitment	135 350	145 296

¹ Interest earned by the Global Mechanism on these funds is reflected in the pooled funds of the VCAE Account.

² The balance of the contribution as at 31 December 1999 reflects foreign exchange rate movements.

**GLOBAL MECHANISM OF THE UN CONVENTION
TO COMBAT DESERTIFICATION**

Appendix E

**STATEMENT OF PORTUGUESE CONTRIBUTION
As at 31 December 1999 and 31 December 1998
(US Dollars)**

	1999	1998
Total Amount of Contribution (received 26 March 1999)	50 000	0
Expenditures	0	0
Total amount expensed in the period	0	0
Total Amount Available for Commitment	50 000	0

NB: Interest earned by the Global Mechanism on these funds is reflected in the pooled funds of the VCAE Account.

**GLOBAL MECHANISM OF THE UN CONVENTION
TO COMBAT DESERTIFICATION**

Appendix F

**STATEMENT OF ISLAMIC DEVELOPMENT BANK CONTRIBUTION
As at 31 December 1999 and 31 December 1998
(US Dollars)**

	1999	1998
Total Amount of Contribution (received 7 September 1999)	12 000	0
	<u>This Year</u>	<u>Cumulative</u>
Expenditures	(6 000)	(6 000)
Total amount expended in the period	(6 000)	(6 000)
Less Funds Committed not Accrued	(6 000)	
Total Amount Available for Commitment	0	0

NB: Interest earned by the Global Mechanism on these funds is reflected in the pooled funds of the VCAE Account.